

## Message Text

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11

ACTION NEA-10

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

EB-07 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-03 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FRB-03 PA-01 PRS-01 /124 W

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P R 100655Z JUN 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC PRIORITY 1895

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BAGHDAD

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TRIPOLI

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: ENRG, OPEC, IR

SUBJECT: YEGANEH SAYS OIL PRICE RISE AN "ECONOMIC IMPERATIVE"

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REF: TEHRAN 5253(NOTAL)

1. SUMMARY: CBI GOVERNOR YEGANAH MADE LONG STATEMENT TO PRESS JUNE 6 ASSERTING OPEC'S RIGHT TO RAISE PRICES AS OF OCT 1. (STATEMENT APPEARS TO REPRESENT NO CHANGE FROM AMOUZEGAR POSITION REPORTED REFTEL THAT "NOTHING WILL HAPPEN" AT LIBREVILLE-NEITHER PRICE INCREASE, NOR CHANGE TO PRICE TO PRICE DENOMINATION IN SDR'S.) YEGANEH'S STATEMENT OF PARTICULAR INTEREST DUE TO DETAIL IN WHICH HE SPELS OUT IRAN'S RATIONALTE FOR CLAIM OF 30-35 PERCENT LOSS OF OPEC PURCHASING POWER AND OTHER GOI VIEWS ON OIL PRICING. END SUMMARY.

2. CBI GOVERNOR MOHAMMAD YEGANEH, IN PRESS CONFERENCE PRIOR TO HIS DEPARTURE FOR LIBREVILLE OPEC MINISTERIAL CONFERENCE (WHERE HE WILL REPRESENT IRAN AS REPORTED REFTEL), SAID: "IN RESPONSE TO THOSE WHO HAVE RECENTLY ARGUED THAT THERE IS NO ECONOMIC JUSTIFICATION FOR THE INCREASE IN PRICES OF PETROLEUM EXPORTED BY OPEC MEMBERS, I MUST STATE THAT, QUITE TO THE CONTRARY, AN EARLY UPWARD REVISION OF OIL PRICES HAS BECOME AN ECONOMIC IMPERATIVE. OUR MAJOR OBJECTIVE ECONOMIC CRITERIA FOR DETERMINING OIL PRICES CANNOT BUT BE THE CHANGES IN THE WORLD PRICE LEVELS, AFFECTING THE EARNINGS OF OIL-EXPORTING COUNTRIES, AS WELL AS THE COSTS OF NEW ALTERNATIVE SOURCES FOR PRODUCTION OF ENERGY AND OTHER RAW MATERIALS UTILIZED IN PETROCHEMICAL INDUSTRIES. THESE TWO PRINCIPAL CRITERIA MUST BE TAKEN TOGETHER AND NO OTHER ARGUMENTS CAN CHALLENGE THESE BASIC ECONOMIC PRINCIPLES."

3. YEGANEH ASSERTED THAT DC'S, "WHICH DOMINATE WORLD ECONOMIC SCENE," HAVE FAILED TO CONTROL INFLATION, WHICH CONTINUES TO ERODE OPEC PURCHASING POWER. YEGANEH PROVIDED CLUE AS TO SOURCE OF GOI CONTENTION THAT OPEC NATIONS HAVE LOST 30-35 PERCENT OF PURCHASING POWER: OECD FIGURES, HE SAID, INDICATE OECD EXPORTS TO OPEC INCREASED 40 PERCENT IN VOLUME BUT 70 PERCENT IN VALUE IN 1974 OVER 1973. YEGANEH CONTINUED "A FURTHER INCREASE OF 10 TO 15 PERCENT IN PRICES OF SUCH EXPORTS IS ANTICIPATED BY THE END OF SEPTEMBER 1975...THUS TH OIL-EXPORTING NATIONS WILL BE LOSING, AFTER ALLOWING FOR MINOR OIL PRICE ADJUSTMENTS DURING 1974, BETWEEN 30 AND 35 PERCENT OF THE PURCHASING POWER OF THEIR DOLLAR EARNINGS FROM THEIR OIL EXPORST BETWEEN JANUARY 1974 AND SEPTEMBER 1975."

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REMAINDER OF YEGANEH'S STATEMENT IS SPIRITED BUT STANDARD DEFENSE OF OPEC POSITIONS: OPEC SHOWED "GOOD WILL" BY FREEZING PRICES AND ASKING FOR DIALOGUE, BUT DC'S HAVE RESPONDED "WITH DELAYING TACTICS AND EFFORTS AT CONFRONTATION." COST OF ALTERNATE SOURCES OF ENERGY OR PETROCHEMICAL FEEDSTOCKS IS \$10 TO \$16 AND CLIMBING. PROJECTS FOR NEW SOURCES OF ENERGY ARE BEING ABANDONED, U.S. UTILITIES ARE SWITCHING FROM COAL BACK TO OIL, AND CONSUMER GOVERNMENTS ARE INCREASING

TAXES ON PETROLEUM. THIS SHOWS THAT OIL PRICE IS TOO LOW. YEGANEH CLAIMS IT "IRONICAL" THAT SAME PEOPLE WHO ADVOCATE INCREASE IN DC TAXES ON OIL ALSO CLAIM THERE IS "NO ECONOMIC JUSTIFICATION FOR INCREASE IN OIL PRICES BY OPEC." YEGANEH CALLS THIS A "DOUBLE STANDARD ON PRICES" AND SAYS "IT IS THIS DOUBLE STANDARD THAT CANNOT HAVE ANY ECONOMIC JUSTIFICATINO." YEGANEH WINDS UP WITH HISTORY OF OIL PRICING: BEFORE WW II GULF OF MEXICO OIL WAS STANDARD; AFTER WW II, PERSIAN GULF OIL ALLOWED TO DROP BELOW GULF OF MEXICO CRUDE: \$2.17 VERSUS \$2.68 IN 1947 AND \$1.78 VERSUS \$3.50 IN THE LATE 1950'S. THIS "PRICE DIFFERENTIAL" COST IRAN OVER \$26 BILLION IN LOSSES DURING 1947-71, YEGANEH CLAIMS--NOT COUNTING THE EROSION OF THE PURCHASING POWER OF THE DOLLAR IN THIS PERIOD. GOI ACTUALLY RECEIVED "TOTAL OIL INCOME OF ABOUT \$6 BILLION" DURING THIS SAME PERIOD. YEGANEH CONCLUDES THAT THROUGH EROSION OIL PRICES HAVE DROPPED TOO LOW, AND THAT THIS HARMS BOTH OPEC AND DC'S LONG-TERM INTERESTS (BY RETARDING DEBELOPMENT OF ALTERNATIVE SOURCES OF ENERGY AND CONSERVATION OF OIL.) "THE ANSWER TO THIS LIES IN AN INCREASE IN OIL PRICES." YEGANEH ASSERTED, HOWEVER, THAT THERE WILL BE NO INCREASE IN OIL PRICE UNTIL OCT 1. MIKLOS

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